

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE MAY 19, 2010 PENSION BOARD MEETING

1. Call to Order

Chairman Mickey Maier called the meeting to order at 8:40 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present:

Linda Bedford (Vice Chair)
Donald Cohen
Keith Garland
Mickey Maier (Chairman)
Jeffrey Mawicke
Dr. Sarah Peck
David Sikorski
Guy Stuller

Members Excused:

Marilyn Mayr

Others Present:

David Arena, Director of Employee Benefits, Department of Administrative Services
Mark Grady, Principal Assistant Corporation Counsel
Dale Yerkes, Assistant Fiscal Officer
Vivian Aikin, ERS Administrative Specialist
Bess Frank, Ad Hoc Oversight Committee
Steven Huff, Reinhart Boerner Van Deuren s.c.
Jon L. Feinberg, ABS Investment Management LLC
Laurence K. Russian, ABS Investment Management LLC
Brett Christenson, Marquette Associates
Larry Langer, Buck Consultants
Lawrence Lin, Buck Consultants
Ken Loeffel, Retiree
Yvonne Mahoney, Retiree
Ray Kress, Retiree
Christopher Westphal, Former Milwaukee County Employee
Richard Westphal, Relative of Christopher Westphal
Joe Westphal, Relative of Christopher Westphal

3. Minutes – April 21, 2010 Pension Board Meeting

The Pension Board reviewed the minutes of the April 21, 2010 Pension Board meeting.

The Pension Board unanimously approved the minutes of the April 21, 2010 Pension Board meeting. Motion by Mr. Cohen, seconded by Mr. Sikorski.

4. Reports of Benefits Director and Assistant Fiscal Officer

(a) Retirements Granted, April 2010

Mr. Arena presented the Retirements Granted Report for April 2010. He reported that a high number of 68 retirements were approved in April with a total monthly payment amount of \$114,682. He noted that 46 retirees elected backDROPs, in amounts totaling \$4,387,263. He indicated 31 members died in April, which resulted in closing files and sending related notifications. He reported that the Retirement Office is preparing for OBRA disbursements by reviewing files and records.

In response to a question from the Chairman, Mr. Arena indicated that he is not certain if the high number of retirements will continue. He stated that the County is considering potential additional layoffs, which could result in additional retirements, but that ERS staff is well-trained on the new system to handle the increased volume of retirements.

(b) ERS Monthly Activities Report, April 2010

Mr. Arena presented the Monthly Activities Report for April 2010. He indicated that ERS had 7,365 retirees at the end of April 2010. He stated that ERS paid out just over \$16 million in benefits for April 2010.

Mr. Arena then discussed the upcoming retiree election, which will be held between August 27 and August 30. An outside telephonic service will be available for retirees through the same company that supports ERS's online voting system for active employees. The term for the Board member elected by retirees will begin on November 1, 2010.

Mr. Arena described the official bid notice for the real estate investment management RFP. The official bid notice was posted on the County's website and advertised in the Daily Reporter. Ray Caprio from Marquette Associates is listed as the contact person.

(c) Cash Flow Report

Mr. Yerkes presented ERS's cash flow report. He noted ERS will need \$5 million in May and \$5 million in June for cash flow. He indicated the Pension Board previously approved these amounts. Marquette Associates will direct where assets will be drawn to fund cash flow.

In response to a question from the Chairman, Mr. Yerkes noted the County's contribution for the year ends in July with the last \$1 million. Therefore, he indicated ERS's cash flow needs will increase this summer.

In response to a question from Ms. Bedford, Mr. Yerkes stated that the backDROP amounts for April were twice as much as expected.

Mr. Yerkes reported that he will request approval of July, August and September cash flow draws in June.

Mr. Yerkes also noted that the annual audit is going well and that the annual report is expanding in some areas.

5. Investments

(a) ABS Long-Short Equity Manager

Jon L. Feinberg and Laurence K. Russian of ABS Investment Management LLC distributed a report. Mr. Russian indicated he and Mr. Feinberg would discuss background information on ABS, equity long-short and the global portfolio in which ERS currently invests.

Mr. Russian first discussed background information on ABS, an employee-owned firm. He indicated the ABS team manages a fund of funds. He stated that there are 32 funds in ABS' global portfolio with the largest at 5.26%. ABS typically has about 30 funds in the portfolio. ABS' global portfolio is 36% net long. Mr. Russian noted that ABS has a website which is updated twice per day with estimates of the underlying funds. In response to a question from Mr. Stuller regarding the names of the 32 funds, Mr. Russian noted the fund names are available upon request.

In response to a question from the Chairman regarding whether ABS changed its strategy after 2008-2009, Mr. Russian stated ABS was partially disappointed in its 2008 results. He indicated ABS believes the results were partly due to the short selling ban which went into effect in September 2008.

In response to a question from the Chairman regarding absolute return strategies versus relative return strategies, Mr. Russian stated ABS invests with more managers of funds that use a relative return strategy.

Mr. Russian noted ABS invests with some managers of funds that use absolute return strategies. He indicated ABS invests with managers of funds with different styles and strategies to create a diversified portfolio.

Mr. Russian next described the parts of ABS' investment team, which has been together since 1994. The first part is the qualitative team, which meets with the managers of the funds. In 2009, ABS had 701 face-to-face on site meetings with managers of the funds and conducted 1,036 conference calls. The second part is the quantitative group, which accumulates information such as daily returns, attributions, sectors, and market caps. The third part is operational due diligence, which conducts a soft audit of funds before ABS invests in a fund. ABS also monitors investments after investing in a fund. Mr. Russian emphasized that ABS does not invest in things it does not understand such as black box strategies.

Mr. Russian stated that ABS focuses on equity long-short strategies and invests globally. ABS built its own proprietary systems, which help organize and streamline its investment process. Mr. Russian noted that the percentage of ABS' global to domestic investments is usually about 50-50.

Mr. Russian commented briefly regarding the history of ABS. ABS has been operating independently since January 2003. ABS now has 21 employees. All employees work in a very large open room together, which fosters a lot of information sharing and a teamwork approach.

In response to a question from Ms. Bedford, Mr. Russian noted that ABS started with about \$135 million under management in 2003 and now has just under \$3 billion under management. Ms. Bedford also asked about the makeup of ABS' client base. Mr. Russian noted it is a pretty broad mix with institutional clients, health plans, public plans, some Taft-Hartley plans and some corporations.

In response to a question from Dr. Peck regarding the incentive structure, Mr. Russian stated that with a hedge fund there is a base management fee and an incentive fee. The incentive fee focuses on performance and provides the manager with a portion of the profits. Thus hedge funds focus on adding value through performance versus raising cash.

In response to a question from Dr. Peck regarding rumors of a big market dip in June 2010, Mr. Russian indicated that there is a lot of fear and ABS is positioned on the low end of its normal risk spectrum. Mr. Russian

stated that when there is increased risk in the marketplace, ABS managers decrease the risk taken in the market.

Mr. Russian then discussed equity long-short. He noted some of the advantages of equity long-short strategies versus traditional long-only strategies. The first advantage of equity long-short strategies is the ability to add value or alpha on both long and short positions. The second advantage is flexible beta, or flexible market exposure, which is the ability to increase or decrease market risk depending on the environment. Other advantages of equity long-short are that it is liquid and transparent.

Mr. Russian noted that another positive feature of equity long-short is the ability to protect capital in bear markets. He indicated by losing less in the tough periods, equity long-short compounds at higher rates of return, or equal rates of return but with a lot less volatility. Mr. Russian described the effects of compounding with a long-short index. He noted that if it loses 50% of its capital, it takes over a 100% return to make up the loss.

Mr. Russian indicated ABS believes equity long-short should be viewed as a type of equity risk and not an absolute return strategy within an equity portfolio. He noted there was a decrease in the number of players in the industry in 2008 and early 2009 resulting in a lot less money. He recommended a three to five year time horizon to evaluate an equity long-short strategy.

Mr. Russian then reported on the global portfolio in which ERS currently invests. He indicated that the objective of ABS' flagship fund is to deliver equity-like returns over a three-to-five-year period with less risk and less volatility. In response to a question from the Chairman, Mr. Russian indicated that ABS compares its portfolio to the MSCI AC World Index benchmark.

(b) Marquette Associates Report

Brett Christenson of Marquette Associates, Inc. distributed both first quarter and monthly reports. He first reported on the first quarter of 2010. He stated that as of March 31, 2010 the market value of ERS's portfolio was just over \$1.8 billion. He reported the quarterly return was 3.1%. Mr. Christenson discussed the ERS fund's return in each of its main asset classes versus their benchmarks for the quarter. The fixed income composite was up 2% versus 1.8% for the benchmark. The domestic equity composite was up 6.9% versus the benchmark of 6.0%. The international equity composite was up 1.5% versus the benchmark of 0.9%.

Regarding ERS's first quarter and annualized return rankings for its individual managers, Mr. Christenson recommended evaluating managers over a market cycle of three to five years and ensuring managers outperform the benchmarks.

He then discussed the fund's year-to-date rankings. The ERS fund versus total public funds ranked in the 73rd percentile. The ERS fund versus funds over \$1 billion ranked in the 64th percentile. He also noted the fund's rankings for the past year. The ERS fund versus total public funds ranked in the 68th percentile. The ERS fund versus funds over \$1 billion ranked in the 62nd percentile. Mr. Christenson stated that ERS's current asset allocation is the reason for these rankings.

Mr. Christenson next described the asset allocation of the ERS fund versus its peer group. ERS has about 22% of its assets currently invested in U.S. equities versus the median public fund which has 42% of its assets invested in U.S. equities, a 20% difference. However, because ERS invests 5% more in international equities than its peers, the ERS fund really just has 15% less allocated to equities than its peers. The ERS fund's current allocation to fixed income is 39% versus 32% for the peer group. Mr. Christenson indicated while the target for ERS on fixed income is 32%, the ERS fund is overweight there as it funds its infrastructure in real estate.

In response to a question from Mr. Garland regarding ERS's risk versus its peer group, Mr. Christenson stated that ERS has less risk on a three-year basis than the median public fund and is also slightly underperforming versus the median public fund. Mr. Garland asked if Marquette could explain this data with bar graphs and numbers versus quadrant boxes. Mr. Christenson noted Marquette will change the format of the data. The Chairman indicated he prefers the current format.

Regarding the fixed income market environment, Mr. Christenson indicated there was a rebound in lower quality corporate bonds over the last year and the stock market is also up about 65% from its low in March 2009. Mr. Christenson stated Marquette believes a reversal may start in May and there is a concern with government debt. He indicated the Chinese stock market is now in a bear market, down over 20% from its high.

Mr. Christenson then presented the April 2010 flash report. He first reported on the U.S. equity market environment. For April 2010, all indices were up over 1%. He indicated the U.S. stock market has lost some of those returns in May 2010. Unemployment is still at 10%, which does not support long-term sustainable growth. The U.S. stock market is also affected by credit concerns in Europe. Mr. Christenson noted that the

international equities saw mixed returns due to concerns about sovereign debt in Greece, Portugal and Spain.

Mr. Christenson then described the ERS fund's current asset allocation versus its targets as of April 30, 2010. The equity portfolios are in line with their target allocations. He indicated there is no need to rebalance at this time. Mr. Christenson indicated that of the \$780 million in fixed income, \$60 million of that will be funding IFM, which will increase the allocation to infrastructure to about half of the target allocation. He reported JPMorgan may make a capital call in late 2010.

Mr. Christenson stated that asset values were steady in April 2010. The market value of the ERS portfolio is just over \$1.8 billion. The ERS fund was up 1.2% for April 2010.

Mr. Christenson reported on the April 2010 manager returns. He indicated GMO, a manager with whom the Pension Board has concerns, is slightly meeting their year-to-date 2010 benchmarks for international large-cap equity. He stated Marquette expects GMO as a value manager to probably underperform in a really hot market like the end of 2009. He indicated GMO appears to be on track in 2010.

In response to a question from Mr. Garland regarding benchmarks for long-short equity, Mr. Christenson stated Marquette will add a benchmark for the individual managers and a separate benchmark for the composite.

6. Actuarial Valuation Report and County Contribution Request – Buck Consultants

Larry Langer and Lawrence Lin from Buck Consultants distributed the following reports: (1) a January 1, 2010 Actuarial Valuation Board Presentation, (2) the ERS Actuarial Valuation as of January 1, 2010, and (3) the OBRA Actuarial Valuation as of January 1, 2010. Mr. Langer noted that Buck Consultants is a wholly-owned subsidiary of Affiliated Computer Services. In February 2010, Xerox acquired Affiliated Computer Services.

Mr. Langer first provided an overview of the 2009 plan year. Mr. Langer invited the Pension Board members to ask questions during the presentation. He stated that the actuarial rate of return for 2009 was 3.9%, while the market rate of return was 20.4%. He indicated that ERS's liabilities behaved as expected. Mr. Langer noted that the actuarial valuation took into account the following Ordinance amendments: (1) the multiplier decrease from 2% to 1.6% for current members' future service and new hires and (2) the retirement age increase to 64 years for new hires. He stated these changes only apply to nonrepresented employees, and

specifically exclude elected officials and deputy sheriffs. He reported there were no methodology changes for the past year reflected in the valuation.

Mr. Langer next discussed the actuarial valuation objectives. The first objective is to determine the actual contribution for the 2010 plan year and budget contribution for the 2011 plan year. Another objective is to compare expectations from the prior valuation to what occurred during 2009 to determine net actuarial gain or loss.

Mr. Langer reviewed the actuarial valuation process. The three primary inputs are membership data, benefit provisions and asset data. The three outputs are unfunded accrued liability, funded status and employer contribution.

Mr. Langer discussed the actuarial assumptions used within ERS. He explained the demographic assumptions are specific to ERS. Regarding economic assumptions, the actuarial valuation uses an 8% rate of return and a 3% rate of inflation. He explained that the 8% rate of return is a very long-term look and is probably the most common return used by U.S. public funds. Mr. Langer stated that Buck Consultants reviews these assumptions annually.

Mr. Langer described the cost method used in the actuarial valuation process. Future payments are discounted by an assumed long-term investment return rate of 8% to determine present value of benefits to be funded. Buck then consults the ERS funding guidelines to determine contributions and the plan's funded status.

Mr. Langer next discussed unfunded liabilities. Unfunded liabilities are amortized over various time periods. Specifically, for contribution variances, unfunded liabilities are amortized over five years. Reimbursable expenses are amortized over ten years. All other unfunded liabilities are amortized over 30 years.

Mr. Langer described ERS member demographics over the past ten years. He noted that between 2009 and 2010 there was a slight increase in the number of deferred vesteds due to the data cleanup. He indicated that while the number of active members overall stayed around 4,800 from 2009 to 2010, the annual compensation went from \$233.8 million to \$237 million during that time. For inactive members, Mr. Langer explained that the decrease in beneficiaries from 2009 to 2010 was due to data clean up.

Mr. Lin discussed a chart showing the ten-year history of market and actuarial assets for ERS. He indicated that the 2009 market value of assets includes the issuance of the pension obligation bonds, which helped to mitigate the 2008 market losses.

Mr. Lin then explained the ERS market value reconciliation. He indicated that for the 2009 plan year, the County contribution of \$60 million also includes \$29 million of the Mercer settlement. He reported the actual gain on the market value of assets in 2009 was \$190 million. He indicated the estimated rate of return in 2009 was 20.4%. He explained how Buck Consultants calculated the actuarial value of ERS's assets. He noted that ERS phases in gains and losses over five years.

In response to a question from Mr. Grady regarding the difference between Buck's and Marquette's estimated rate of return, Mr. Langer explained that Buck uses simplifying assumptions for things like cash flows, benefit payments, and contributions. Mr. Langer indicated these simplifying assumptions can skew the estimated rate of return.

The Chairman asked whether there was any material effect on contributions from the change in the multiplier from 2% to 1.6%. Mr. Langer stated the effect is shown on the ERS reconciliation of 2010 budget to the 2010 actual contributions under "Methodology changes and other." For ERS, Mr. Langer stated that the 2010 actual contribution was \$27,549,990 and the 2011 budget contribution is \$31,602,000. He indicated that when accounting for the contribution necessary for OBRA, the 2010 actual contribution rises to \$28,266,429 and the 2011 budget contribution rises to \$32,374,000. He noted that the two reasons for the lower than expected 2010 actual contribution were that the asset experience was better than expected and the Mercer settlement proceeds.

Mr. Langer explained a chart with a projection of contributions under the current funding policy. He stated that there will generally be steadily increasing contributions until 2033 when some large amortization schedules end their 30-year amortizations. The first amortization schedule to end is from 2005 when there was \$257 million of unfunded liabilities amortized over 30 years. Also, some assumption changes from 2006 were amortized over 30 years. The big increase as of 2038 is because that is the last year of amortizing the pension obligation bond proceeds over 30 years.

Mr. Langer indicated the main reasons for the increase from the 2010 actual contribution to the 2011 budget contribution are: (1) existing amortization payments are increasing over time, (2) normal costs of benefits accruing over time are increasing and (3) the phase in of net deferred asset losses during the year.

Mr. Langer explained that on an actuarial value of assets basis, the plan was 93.3% funded as of January 1, 2010 versus 95.7% funded as of January 1, 2009. He stated that on a market value of assets basis, the plan was 86.9% funded as of January 1, 2010 versus 77.6% funded as of January 1, 2009. In response to a question from Mr. Grady regarding whether ERS is more well-funded than many

of its peers, Mr. Langer estimated the average funded status of ERS's public fund peers at 65% on a market value of assets basis. Mr. Langer stated that ERS compares favorably at almost 87%.

Mr. Lin discussed the OBRA actuarial valuation. He noted that anyone who has earned compensation during the year is categorized as an active participant in OBRA. He indicated that total compensation decreased from about \$8.5 million as of January 1, 2009 to about \$7 million as of January 1, 2010.

Mr. Lin then discussed the OBRA plan. He noted that the administrative expenses payable to the County increased from \$590,678 as of December 31, 2008 to \$627,953 as of December 31, 2009. He indicated this was very significant compared to the market value of assets of \$1,038,607 as of December 31, 2009.

Mr. Langer recommended several steps for developing a new funding policy. First, he recommended paying normal cost. Second, he recommended paying expenses up front. Finally, he recommended amortizing all other unfunded liabilities over a 30-year period.

In response to a question from Mr. Stuller, Mr. Yerkes stated that OBRA administrative expenses run through an investment account. Mr. Grady stated that part of the \$1.3 million charged back to the County is for the Retirement Office. Mr. Yerkes indicated that 20% of the total staff effort is allocated to OBRA.

Mr. Grady noted that he has the letter that Buck drafted to the County Executive that the Chairman signs if any Board member would like to review it. He indicated it is essentially the same letter used in the prior year.

The Pension Board voted 7-1, with Mr. Stuller dissenting, to approve the 2010 actual contribution of \$28,266,429 and the 2011 budget contribution of \$32,374,000 to ERS. Motion by Mr. Cohen, seconded by Dr. Peck.

7. Audit Committee Report

Mr. Stuller reported on the May 6, 2010 Audit Committee meeting. The Audit Committee first discussed the topic of mandatory direct deposit. Approximately 200 retirees are not using direct deposit. Mr. Yerkes explained the value of direct deposit, including faster access to pension benefits.

Mr. Grady noted the Audit Committee recommended the Pension Board adopt a policy requiring direct deposit of retirees' pension checks. He noted for those retirees who are unable to open a bank account with direct deposit, ERS will attempt to set up a free debit card for them.

The Pension Board unanimously approved adopting the recommendation of the Audit Committee to develop a policy requiring direct deposit of retirees' pension checks. Motion by Dr. Peck, seconded by Ms. Bedford.

Mr. Stuller stated that the Audit Committee then discussed the location of Pension Board meetings. He indicated the cost comparison of Zoofari versus the Marcus Center showed little cost savings by changing Pension Board meeting locations. Mr. Stuller stated that he felt that Zoofari might be more accessible for the public. Mr. Arena noted ERS will gather additional information regarding the cost of potential meeting locations based on the discussions at the Audit Committee meeting. Mr. Yerkes indicated ERS will complete a cost comparison of the Marcus Center to Zoofari without the food cost for lunch. Mr. Arena noted ERS will also research the cost of audio streaming of Pension Board meetings.

Mr. Grady noted the Audit Committee also discussed the possibility of members who receive Options 1 or 6 changing their beneficiaries after retirement. He indicated the Retirement Office proposed this idea after receiving inquiries from interested members.

Mr. Grady explained that Option 1 is available to someone who had a pre-1971 membership account. The benefit that is paid is solely based on the member's account balance, not the life expectancy of the beneficiary. Mr. Grady described Option 6, a ten-year certain annuity. He indicated this benefit is paid for a minimum of ten years, and is not calculated based on the beneficiary's life expectancy. Thus, changing the beneficiary has no impact on the size of the benefit for either Option 1 or Option 6. Mr. Grady indicated the actuary agreed that there would be no fiscal impact to allowing members receiving benefits under Options 1 or 6 to change beneficiaries after retirement.

The Audit Committee recommended a revision to Rule 1013 so that a member being paid a benefit pursuant to Option 1 or Option 6 may change the designation of the named beneficiary at any time.

The Pension Board unanimously approved revised Rule 1013 attached to these minutes as Exhibit A, clarifying that a member being paid a benefit pursuant to Option 1 or Option 6 may change the designation of the named beneficiary at any time. Motion by Mr. Cohen, seconded by Ms. Bedford.

Mr. Stuller reported the Audit Committee also discussed the retiree election process. The Pension Board previously approved using methods of election other than paper ballots. Mr. Grady stated he drafted an amended rule to allow any type of voting the Board wants such as phone and internet voting. He indicated there is

one substantive change in this rule that the Audit Committee endorsed regarding changing the limit for candidate statements from 75 words to 300 words.

The Pension Board unanimously approved revised Rule 1034 attached to these minutes as Exhibit B, clarifying that methods of election other than paper ballots may be used in the retiree election. Motion by Mr. Cohen, seconded by Ms. Bedford.

8. Administrative Matters

The Pension Board had no additions or deletions to the Pension Board, Audit Committee, or Investment Committee topic lists.

9. Selection of Passive Core Fixed Income and Passive U.S. Large Cap Equity (S&P 500) Fund Manager(s)

Ms. Bedford moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(e), with regard to item 9 for considering the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session.

Ms. Bedford also moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f), with regard to item 10 for considering the financial, medical, social or personal histories of specific persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of any person referred to in such histories and that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g), with regard to items 10, 11, 12, 13, 14 and 15 for the purpose of the Board receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

The Pension Board voted by roll call vote 8-0, to enter into closed session to discuss agenda items 9, 10, 11, 12, 13, 14 and 15. Motion by Ms. Bedford, seconded by Mr. Cohen.

Upon returning to open session, the Pension Board considered a new fee schedule from BNY Mellon.

In open session, the Pension Board unanimously approved accepting a new fee schedule from BNY Mellon and continuing to seek other options with regard to the selection of passive core fixed income and passive U.S. large cap equity fund managers. Motion by Ms. Bedford, seconded by Mr. Cohen.

10. Disability Matters

(a) Applications

(i) David Coolidge, ADR

The Pension Board discussed David Coolidge's accidental disability pension. The Medical Board recommended that the Pension Board deny Mr. Coolidge's accidental disability pension application.

In open session, the Pension Board unanimously approved accepting the Medical Board's recommendation to deny an accidental disability pension application. Motion by Mr. Cohen, seconded by Ms. Bedford.

(ii) Shirley Coleman, ODR

The Pension Board discussed Shirley Coleman's ordinary disability pension. The Medical Board recommended that the Pension Board grant Ms. Coleman's ordinary disability pension application.

In open session, the Pension Board unanimously approved accepting the Medical Board's recommendation to grant an ordinary disability pension application. Motion by Mr. Cohen, seconded by Ms. Bedford.

11. Christopher Westphal Claim Appeal – ODR Application

The Pension Board reviewed Christopher Westphal's request to apply for an ordinary disability pension. Mr. Westphal applied for an ordinary disability retirement ("ODR") from ERS following his termination of employment on December 11, 2009. The Retirement Office denied Mr. Westphal's request for an ODR in a letter sent to Mr. Westphal on February 22, 2010 because he did not satisfy the required terms of Ordinance section 201.24(4.4). Ordinance section 201.24(4.4) allows a member to apply for an ODR if the member's employment terminates by reason of ordinary disability, and the member has completed 15 or more years of service. Mr. Westphal's employment records do not indicate that he terminated employment because of a disability. In addition, Mr. Westphal does not have the minimum 15 years of service credit required for an ODR. Mr. Westphal appealed the Retirement Office's denial on March 24, 2010.

Mr. Westphal previously initiated a buy in of service credit under ERS Rule 207. Mr. Westphal had claimed to have the necessary number of years to file an ODR application, if the years contemplated by his buy in were included in his total

service credit. Rule 207 requires that members purchase service credit in a lump sum purchase or in up to four installments. Members only receive credit for the purchased service credit when the buy in is complete, and they cannot purchase partial service credit unless they terminate employment because of a disability. Rule 207 also limits a member's annual payment for a purchase of service credit to 25% of the member's annual County compensation.

Mr. Westphal has been unable to complete his buy in under the terms of Rule 207 because his installment payments were greater than 25% of his annual County compensation. In addition, Mr. Westphal will not be able to make further payments to complete his buy in because he is no longer employed by the County, and consequently cannot make additional payments within the 25% of annual County compensation requirement. ERS previously requested assistance from the Internal Revenue Service ("IRS") as part of its Voluntary Correction Program application to allow members effectively precluded from completing a buy in because of the compensation limitations to make payments outside of the four year installment period.

The Pension Board noted that the Retirement Office's reasons for denying Mr. Westphal's ODR application still exist. Mr. Westphal does not meet the requirements under Ordinance section 201.24(4.4) because his employment records do not indicate he terminated employment because of a disability. He does not have the service credit required to apply for an ODR because his purchase of service credit is incomplete. The Pension Board members noted they are sympathetic to Mr. Westphal's situation, but that the Pension Board is unable to grant Mr. Westphal an ODR because it must administer benefits based on the terms of the Ordinances and Rules. The Pension Board noted that, in conjunction with the denial of Mr. Westphal's ODR, ERS will ask the IRS to allow completion of certain purchases of service credit for members effectively precluded from completing their purchases of service credit. ERS will notify Mr. Westphal if the situation changes for him.

In open session, the Pension Board unanimously denied Mr. Westphal's request to apply for an ordinary disability pension. Motion by Dr. Peck, seconded by Ms. Bedford.

12. Audit Committee Report – Loss of Pension – Fault or Delinquency

The Chairman noted the Audit Committee recommended the repeal of ERS Rule 806 titled "Termination for fault or delinquency" and no change to ERS Rule 805 titled "Resignation is not 'fault or delinquency' on member's part." These rules relate only to vested deferred members.

In open session, the Pension Board unanimously approved the Audit Committee's recommendation to repeal Rule 806. Motion by Ms. Bedford, seconded by Mr. Garland.

In open session, the Pension Board voted 7-1, with Dr. Peck dissenting, to accept the Audit Committee's recommendation to keep Rule 805 unchanged. Motion by Mr. Mawicke, seconded by Mr. Garland.

13. Pending Litigation

(a) Mark Ryan, et al. v. Pension Board

The Pension Board took no action on this item.

(b) Travelers Casualty v. ERS & Mercer

The Pension Board took no action on this item.

14. Report on Special Investigation

The Pension Board took no action on this item.

15. Report on Compliance Review

The Pension Board took no action on this item.

16. Adjournment

The meeting adjourned at 11:45 a.m.

Submitted by Steven D. Huff,
Secretary of the Pension Board

EXHIBIT A

AMENDMENT TO THE RULES OF THE PENSION BOARD OF THE EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

RECITALS

1. Section 201.24(8.1) of the general Ordinances of Milwaukee County (the "Ordinances") provides that the Pension Board of the Employees' Retirement System of the County of Milwaukee (the "Pension Board") is responsible for the general administration and operation of the Employees' Retirement System of the County of Milwaukee ("ERS").
2. Ordinance Section 201.24(8.17) provides that the Pension Board has the power to construe and interpret the system, decide all questions of eligibility and determine the amount, manner and time of payment of any benefits.
3. Ordinance section 201.24(8.6) allows the Pension Board to establish rules for the administration of ERS.
4. Members receiving benefits under Option 1 and 6 have made requests to change their designated beneficiary, including after retirement and payment of the benefit to the member has begun.
5. ERS staff has routinely informed such members that ERS practice has not allowed members to change beneficiaries once payment of a pension benefit has begun.
6. The actuary for ERS has opined that a change in beneficiary by members receiving a benefit under Options 1 or 6 does not have an actuarial effect on the plan because the benefit is not calculated based on, or affected by, the age or life expectancy of the beneficiary.
7. Therefore, the Pension Board hereby adopts the following Resolution:

RESOLUTION

SECTION 1. Pursuant to section 201.24(8.6) of the General Ordinances of Milwaukee County, the Pension Board of the Employees' Retirement System of the County of Milwaukee amends Rule 1013 to read as follows:

1013. Optional Forms of Payment

(1) *Available forms.* In addition to the forms of payment provided by section 201.24(7.1) of the Ordinances, the following forms of payment shall be permitted pursuant to section 201.24(7.2) of the Milwaukee County Code of General Ordinances. Payment shall be made on the last business day of the month:

(a) *Option 4. Twenty-five (25) percent co-pensioner option.* This form of benefit provides a reduced monthly benefit payable to the member for his or her lifetime with monthly payments continuing upon the death of the member for the life of a designated beneficiary in an amount equal to twenty-five (25) percent of the amount that had been paid to the member during his or her lifetime. Benefit payments shall be made as follows:

[1] During the month of the member's death, the beneficiary and the member's estate will each receive a pro rata portion of the member's lifetime benefit payment payable for the month of the member's death.

[2] Benefit payments will commence to the beneficiary as of the first day of the month following the month in which the member dies.

The amount of the benefit shall be computed pursuant to tables supplied by the actuary to the board. This form of benefit is available without approval of the board.

(b) *Option 5. Seventy-five (75) percent co-pensioner option.* This form of benefit provides a reduced monthly benefit payable to the member for his or her lifetime with monthly payments continuing upon the death of the member for the life of a designated beneficiary in an amount equal to seventy-five (75) percent of the amount that had been paid to the member during his or her lifetime. Benefit payments shall be made as follows:

[1] During the month of the member's death, the beneficiary and the member's estate will each receive a pro rata portion of the member's lifetime benefit payment payable for the month of the member's death.

[2] Benefit payments will commence to the beneficiary as of the first day of the month following the month in which the

member dies. Benefit payments to the beneficiary shall continue until the beneficiary dies.

The amount of the benefit shall be computed pursuant to tables supplied by the actuary to the board. This form of benefit is available without approval of the board.

(c) *Option 6. Ten-year certain annuity.* This form of benefit provides a reduced monthly benefit payable to the member for his or her lifetime. If a member who is receiving this form of benefit dies before receiving one hundred twenty (120) monthly payments, then monthly payments in the amount payable at the time of the member's death shall continue to the member's designated beneficiary until a total of one hundred twenty (120) payments have been made in the aggregate to the member and his or her designated beneficiary (or, if the member's designated beneficiary has predeceased the member or dies before a total of one hundred twenty (120) payments have been made, then to the member's spouse, or, if none, then to the member's estate). The amount of the benefit shall be computed pursuant to tables supplied by the actuary to the board. This form of benefit is available without approval of the board.

(d) *Option 7. Any other form.* A member may apply to the board to receive his or her benefits in any other form permitted by section 201.24(7.2) of the Milwaukee County Code of General Ordinances. The board will generally deny any such request on the grounds that the standard six (6) optional forms of benefit set forth in section 201.24(7.1) and in Rule 1013(a)(1), (2) and (3) provide sufficient options to members and that any other form of benefit subjects the system to unnecessary administrative expense and burden. Further, pursuant to Rule 1021, the board will not grant any request for a lump sum benefit. However, the board, in its sole discretion, reserves the right to determine whether to approve a member's application for a benefit under this rule 1013(a)(4). The board shall review such requests pursuant to Rule 1035. The board or, where board responsibility has been delegated to others, such delegates shall have complete authority to determine the standard of proof required in any case and to apply and interpret this rule 1013(a)(4). The decision of the board or its delegates shall be binding upon all persons dealing with the system or claiming any benefit hereunder, except to the extent that such decision may be determined to be arbitrary or capricious by a court having jurisdiction over such matter. A member shall be required to pay all costs incurred by the system to evaluate each form of benefit requested by the member.

(2) *Beneficiary designation.* If a member elects a form of benefit under which benefits may continue to a beneficiary after the member's death, then the member shall be required to designate a beneficiary in writing on forms approved by the board and submitted to the board at the time the member elects such a form of benefit.

(a) A member being paid a benefit pursuant to Option 1 listed in section 201.24(7.1) or Option 6 listed in this rule 1013(1)(c) may change the designation of the named beneficiary at any time.

(3) *Actuarial equivalent.* The forms of benefit under section 201.24(7.2) of the Milwaukee County Code of General Ordinances and Rule 1013 shall be the actuarial equivalent of a member's pension as calculated pursuant to Rule 1014.

(4) *Lump sum distribution request.* Pursuant to Rule 1021, a request for any form of benefit that constitutes a lump sum benefit will not be granted.

Effective upon passage on May 19, 2010.

EXHIBIT B

AMENDMENT TO THE RULES OF THE PENSION BOARD OF THE EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

RECITALS

1. Section 201.24(8.1) of the general Ordinances of Milwaukee County (the "Ordinances") provides that the Pension Board of the Employees' Retirement System of the County of Milwaukee (the "Pension Board") is responsible for the general administration and operation of the Employees' Retirement System of the County of Milwaukee ("ERS").
2. Ordinance Section 201.24(8.17) provides that the Pension Board has the power to construe and interpret the system, decide all questions of eligibility and determine the amount, manner and time of payment of any benefits.
3. Ordinance section 201.24(8.6) allows the Pension Board to establish rules for the administration of ERS.
4. The Pension Board has determined that the retiree election shall be held by phone voting with security features such as passcodes, and may in the future be held through internet voting, in order to reduce administrative costs to ERS, to encourage participation by voters while maintaining the necessary secrecy of each member's vote.
5. The Pension Board has determined that the prior word limit on candidate statements was unduly restrictive and that the length of candidate statements should be increased to 300 words, but that the removal of all limitations would unnecessarily increase ERS administrative costs.
6. Therefore, the Pension Board hereby adopts the following Resolution to modify Rule 1034 to reflect the new methods of voting:

RESOLUTION

SECTION 1. Pursuant to section 201.24(8.6) of the General Ordinances of Milwaukee County, the Pension Board of the Employees' Retirement System of the County of Milwaukee hereby amends Rule 1034 to read as follows:

1034. Election of Retiree Member of Board.

~~Section 201.24(8.2) of the General Ordinances of Milwaukee County provides for various changes to the composition of the Pension Board of the Employees' Retirement System of the County of Milwaukee (the "Pension Board"). Following these changes, the Pension Board will include a retiree representative as one of its members.~~

The following procedures shall apply when conducting the election of the retiree member of the Pension Board. The Pension Board shall have the discretion to interpret and amend these procedures in any manner that is consistent with Ordinance section 201.24(8.2).

(1) *Candidate Qualification.* To be a candidate for the retiree member of the Pension Board, an individual must be a retiree of ERS. A "retiree" is a person who:

- (a) previously worked as a Milwaukee County employee;
 - (b) earned retirement benefits as an active member in ERS;
 - (c) retired directly from County employment or as a deferred vested retiree;
 - (d) as of the date of the nomination deadline, has begun to receive pension benefits; and
 - (e) is currently receiving an ongoing monthly benefit from ERS.
- For these purposes, a "retiree" does not include a beneficiary of a former County employee who receives a survivor annuity benefit after the former County employee's death.

(2) *Election Process Timeline.* The initial term for the elected retiree member shall begin as of November 1, 2004. Subsequent regular terms shall begin as of November 1 of an applicable year. Special election timelines and different term effective dates shall apply in the event of a vacancy in this position as provided in section (9) of this Rule. In years during which a regular election of the retiree member would occur, the following timeline shall apply, provided that, if the date of any deadline falls on a weekend or holiday, the deadline shall be extended until 5 p.m. of the next business day.

(a) *Notice of Election and Ability to Seek Nomination.* The Retirement Office shall send this Notice to retirees with monthly checks ~~or~~ and automatic deposit notices by May 31 for a renewal term or the end of the month it is first feasible to do so for a special election.

(b) *Nomination Deadline.* Complete nomination papers must be received in the Retirement Office by 5 p.m. on the last day of the following month.

(c) *Notice of Candidates for Primary Election and Date of Primary Election.* The Retirement Office shall send resumes and statements of candidates for the primary election and the ballot for the primary election, if necessary, to retirees with monthly checks ~~or~~ automatic deposit notices by the end of the following month. If only two candidates file valid nomination papers, the ballot for the final election shall be sent.

(d) *Primary Election Date.* If necessary, a primary election shall be held. ~~Votes~~~~Ballots~~ must be received in the Retirement Office by 5 p.m. on the last day of the following month. If only two candidates file valid nomination papers, this shall be the deadline for the final election.

(e) *Notice of Candidates for Final Election and Date of Final Election.* The Retirement Office shall send results of the primary election, resumes of candidates for the final election, if necessary, and the ballot for the final election to retirees with monthly checks ~~or~~ automatic deposit notices by the end of the following month.

(f) *Final Election.* If necessary, the final election shall be held. ~~Votes~~~~Ballots~~ must be received in the Retirement Office by 5 p.m. on the last day of the following month.

(g) *Commencement of Service.* Service begins on the first day of the following month, with the expectation that the retiree member would be available to attend the regularly scheduled Pension Board meeting for that month.

(3) *Nomination of Candidates.* To begin the nomination process, an eligible individual must register as a candidate, prove eligibility for candidacy to the Retirement Office and request nomination papers from the Retirement Office.

(a) *Nomination Requirements.* To earn a nomination and be placed on the ballot for the retiree member election, an eligible individual must obtain 15 signatures. An eligible individual's representative may circulate the nomination papers and collect signatures on behalf of the eligible individual. The potential candidate or representative must obtain the requisite number of signatures from other retirees eligible to run for Pension Board membership. Upon receiving the required number of signatures for nomination, the candidate or representative shall sign and date the nomination papers, have them notarized and return the nomination papers to the Retirement Office. The individual shall also present, along with the nomination papers, a resume and statement, limited to ~~300~~~~75~~ words, detailing the candidate's qualifications for the position at that time.

(b) *Nomination Papers.* The nomination papers should be designed by the Retirement Office, and the Pension Board shall approve the nomination papers and any changes to the nomination papers. These papers shall require the signatory to include, at a minimum, his or her retirement location and years of County service.

(4) *Campaigning.* In the time period between the nomination deadline and either of the applicable election dates, a candidate may campaign for the position of retiree Pension Board member. Mailing labels will not be available for candidates to send mailings to eligible voters. Mailing of candidates' resumes and statements will be made by the Retirement Office as part of the mailing of monthly benefit checks or monthly automatic deposit notices according to the timeline described in sections (2)(c) and (e) above, as applicable. Candidates must comply with any applicable campaign laws. Candidates should seek counsel regarding these requirements prior to beginning their campaigns.

(5) *Election Format.* If only two candidates file approved nomination papers, no primary election will be held. Instead, a final election will be held according to the timeline described in sections (2)(c) and (d) above and will determine the retiree member representative on the Pension Board. If more than two candidates file approved nomination papers, a primary election will be held according to the timeline described in sections (2)(c) and (d) above. Following the primary election, the two candidates receiving the highest number of votes in the primary election shall have their names placed on the ballot for the final election. However, if one candidate receives more than 55% of the votes cast in the primary election, there will be no final election. If necessary, the final election shall be held according to the timeline described in sections (2)(e) and (f) above. Positions on the ballot for the primary election and the final election will be determined by random drawing. The drawing will be conducted by the Secretary of the Pension Board and will take place in the Retirement Office before one or more witnesses. Attendance of the candidates at the ballot position drawing is optional with the candidates.

(6) *Voting.* All primary and final elections shall be conducted by [computer-based internet and/or telephone voting](#)~~mail~~. The Retirement Office shall send notice of the election or primary election, if any, and [a secure passcode and instructions for voting](#)~~a ballot~~ for that election to all eligible voters according to the timeline described in section (2)(c) above. If necessary, the Retirement Office shall send notice of the final election and a [passcode and instructions for voting](#)~~ballot~~ for that election to all eligible voters according to the timeline described in section (2)(e) above. ~~These mailings shall include a preaddressed return envelope, postage not included. Additional ballots and information will be available at the Retirement Office in the event ballots are lost or misdelivered.~~

Write-in votes are not allowed in either the primary or general election and will not be accepted.

(7) *Election Results.*

(a) *Determination of Outcome.* In the case of a primary election, the two candidates receiving the highest number of votes will progress to the final election. However, if one of the candidates receives more than 55% of the votes cast in the primary election, that candidate shall be declared the retiree member of the Pension board. In the event that no candidate receives more than 55% of the votes cast in the primary election, the candidate receiving the highest number of votes in the final election shall be the winner of that election. In the result of a tie in either the primary or general election, the Retirement Office shall break the tie in accordance with Wisconsin Statutes section 5.01(4).

(b) *Certification and Announcement of Results.* As soon as possible after completion of both the primary election and the final election, the Retirement Office shall certify the election results to the Pension Board Chairperson. The Retirement Office will then announce to the public the election results, including the number of votes received by each candidate.

(8) *Administration of Election.* The Retirement Office shall oversee and administer the election process. As a result, the Retirement Office shall take the following actions:

(a) Compliance with the applicable election laws as determined by Corporation Counsel.

(b) Compliance with applicable election policies of the Pension Board.

(c) Acceptance and confirmation of validity of nomination papers.

(d) Tabulation of votes. In the result of a tie, the Retirement Office shall break the tie in accordance with Wisconsin Statutes section 5.01(4).

(e) Announcement of election results.

(f) Handling complaints or disputes with the election process.

The Retirement Office shall take all other actions necessary and within its power to administer this election. The Retirement Office may assign responsibility for various actions to various other parties.

(9) *Special Election.* In the event a vacancy exists in the retiree member position, the Retirement Office shall conduct a special election. A special election may be necessary to elect the retiree member in the event of the resignation, removal or death of a sitting retiree member. If a special election becomes necessary, the Retirement Office shall follow the same election procedures to conduct the special election as are used to elect the retiree member during the regular election. To maintain the same three-year term length and two consecutive term limit, the Pension Board may need to modify the retiree member's date of termination and the successor member's beginning date. The Pension Board shall establish alternative timelines appropriate for conducting the special election in a timely manner. These timelines shall be based upon the timeline used for a regular election. For a special election, the deadline for each step of the process shall be the end of the month following the month in which the prior step is completed. If the date of any deadline falls on a weekend or holiday, the deadline shall be extended until 5 p.m. of the next business day.

SECTION 2. Section 1 shall be effective for elections held pursuant to Rule 1034 after [May 19, 2010](#).